| Local Govern        | ment Type               | shin   | Village                    | Other           | Local Governme   | ent Name<br>of Davison   |                    | Cour       | nty<br>nesee |                 |
|---------------------|-------------------------|--------|----------------------------|-----------------|------------------|--|--------------------|------------|--------------|-----------------|
| Audit Date          | <u> </u>                | отпр   | Opinior                    | Date            | Township         | Date Accountant Report Subm  | nitted to State:   | de         | 110300       | <del></del>     |
| 6/30/05             | audited th              | o fine | 8/17/                      |                 | local unit of a  | government and rendere   | d on oninion on    | financial  | etatama      | nto propared i  |
| accordance          | e with the              | e Sta  | atements of                | the Govern      | mental Accou     | inting Standards Board<br>Int in Michigan by the Mic                               | (GASB) and the     | e Uniform  | n Repon      |                 |
| We affirm           | that:                   |        |                            |                 |                  |  |                    |            |              |                 |
| 1. We ha            | ive compl               | ied w  | ith the <i>Bulle</i>       | etin for the Au | ıdits of Local U | Units of Government in M   | ichigan as revise  | d.         |              |                 |
| 2. We are           | e certified             | publ   | ic accounta                | nts registere   | d to practice in | Michigan.  |                    |            |              |                 |
| We further comments |                         |        |                            | responses h     | nave been disc   | closed in the financial star   | tements, includin  | g the not  | es, or in    | the report of   |
| ou must o           | heck the                | appli  | cable box fo               | or each item l  | below.           |  |                    |            |              |                 |
| Yes                 | <b>√</b> No             | 1.     | Certain com                | ponent units    | /funds/agencie   | es of the local unit are ex  | cluded from the f  | inancial   | statemer     | nts.            |
| Yes                 | √ No                    |        | There are a<br>275 of 1980 |                 | deficits in one  | or more of this unit's u   | nreserved fund     | balances   | retained/    | earnings (P./   |
| Yes                 | ✓ No                    |        | There are i<br>amended).   | nstances of     | non-complian     | ce with the Uniform Acc  | counting and Bu    | dgeting /  | Act (P.A.    | . 2 of 1968, a  |
| Yes                 | <b>√</b> No             |        |                            |                 |                  | itions of either an order<br>r the Emergency Municip                               |                    | he Munic   | cipal Fin    | ance Act or     |
| Yes                 | <b>√</b> No             |        |                            |                 |                  | ents which do not comp<br>of 1982, as amended [M                                   |                    | requirem   | ents. (P     | .A. 20 of 194   |
| Yes                 | <b>√</b> No             | 6.     | The local ur               | nit has been o  | delinquent in d  | listributing tax revenues t  | hat were collecte  | ed for and | ther tax     | ing unit.       |
| Yes                 | <b>√</b> No             | 7.     | pension bei                | nefits (norma   | I costs) in the  | titutional requirement (A<br>current year. If the plar<br>requirement, no contribu | n is more than 1   | 00% fund   | ded and      | the overfundi   |
| Yes                 | ✓ No                    |        | The local u<br>(MCL 129.2  |                 | dit cards and    | has not adopted an ap  | plicable policy a  | as require | ed by P.     | A. 266 of 19    |
| Yes                 | <b>√</b> No             | 9.     | The local ur               | nit has not ac  | lopted an inve   | stment policy as required  | I by P.A. 196 of ' | 1997 (MC   | L 129.95     | 5).             |
| We have             | enclosed                | the 1  | following:                 |                 |                  |  | Enclosed           |            | Be<br>arded  | Not<br>Required |
|                     |                         |        | and recomn                 | nendations.     |                  |  | ✓ ✓                | 1011       | urucu        | rtoquired       |
| Reports o           | n individu              | al fed | deral financi              | al assistance   | e programs (pr   | ogram audits).   |                    |            |              |                 |
| Single Au           | dit Report              | s (AS  | SLGU).                     |                 |                  |  |                    |            |              | <b>✓</b>        |
| 0.25.3              | 11: 4                   | , ,    |                            |                 |                  |  |                    | -          |              |                 |
| Certified Pul       | blic Account<br>& Moran |        |                            |                 |                  |  |                    |            |              |                 |
| Street Addre        |                         | Stre   | et, Suite 1                | Α Λ             |                  | City<br>Flint  |                    | State      | ZIP<br>48    | 502             |
| Accountant          |                         | //     | and 1/e                    | / /             | 1.               | C. Marine  |                    | Date       | 1.7          |                 |

### **Annual Financial Report**

Davison Township Genesee County, Michigan

**June 30, 2005** 

with Independent Auditors' Report

### Davison Township Annual Financial Report For the Fiscal Year Ended June 30, 2005

### **Table of Contents**

| Α   | Page  |
|---|-------|
| Introductory Section:   |       |
| List of Elected Officials   | 1     |
| Financial Section:  |       |
|   |       |
| Report of Independent Auditors  | 2-3   |
| Management's Discussion and Analysis  | 4-9   |
| Basic Financial Statements:   |       |
| Government-wide Financial Statements:   |       |
| Statement of Net Assets   | 10    |
| Statement of Activities   | 11-12 |
| Fund Financial Statements:  |       |
| Balance Sheet Governmental Fund   | 13    |
| Reconciliation of the Fund Balance as Reported in the Governmental Fund Balance Sheet to the Statement of Net Assets                              | 14    |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds   | 15    |
| Reconciliation of the Statement of Revenues, Expenditures,<br>and Changes in Fund Balance of Governmental Funds<br>to the Statement of Activities | 16    |
| Statement of Net Assets – Proprietary Funds   |       |
| Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds  | 18    |
| Statement of Cash Flows - Proprietary Funds   | 19    |
| Statement of Assets and Liabilities - Fiduciary Funds   | 20    |
| Notes to the Basic Financial Statements   | 21-38 |

### Davison Township Annual Financial Report For the Fiscal Year Ended June 30, 2005

### **Table of Contents – (continued)**

|   | Page |
|---|------|
| Required Supplementary Information Section:                                   |      |
| Analysis of Retirement System Funding Progress                                | 39   |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance –General Fund | 40   |



### Annual Financial Report Davison Township June 30, 2005

### **List of Elected Officials**

Kurt Soper Supervisor

Patrick R. Miller Treasurer

Karen Miller Clerk

Timothy W. Elkins Trustee

Matthew D. Karr Trustee







Suite 1A 111 E. Court St. Flint, MI 48502 Tel: 810,767.5350 Fax: 810,767.8150 plantemoran.com

### Independent Auditors' Report

The Honorable Members of the Township Board Davison Township Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of Davison Township, Michigan (Township) as of June 30, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Davison Township, Michigan at June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 9 and the information in the required supplemental information section on pages 39 and 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davison Township's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Certified Public Accountants

Flint Office

August 17, 2005





### Davison Township Management's Discussion and Analysis

This section of the Davison Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Township's financial statements, which follow this section.

### **Financial Highlights**

- The Township's Total Net Assets are \$24.7 million. Unrestricted net assets were \$14.4 million.
- During the year, the Township's governmental expenses were \$1,684,831 less than the \$5,829,879 generated in taxes and other revenues for governmental programs. Capital grants of \$973,494 were utilized to purchase new infrastructure not shown as a governmental expense
- General fund revenues exceeded expenditures by \$313,142.

### **Overview of the Financial Statements**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
  - \* The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - \* Proprietary fund statements offer short- and long-term financial information about the water and sewer system that the government operates like a business.
  - \* Fiduciary fund statements provide information about the financial relationships where the Township acts as an agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### Table 1 Major Features of Davison Township's Government-wide and Fund Financial Statements Fund Statements

| Type of<br>Statements                  | Government-wide   | Governmental Funds   | Proprietary Funds  | <u>Fiduciary Funds</u>   |
|--|---|--|--|--|
| Scope                                  | Entire Township government (except fiduciary funds)                                       | The activities of the<br>Township that are not<br>proprietary or fiduciary,<br>such as police, fire, and<br>parks  | Activities the<br>Township operates<br>similar to private<br>businesses: the<br>water and sewer<br>system  | Instances in which the<br>Township is the trustee<br>or agent for someone<br>else's resources  |
| Required financial statements          | <ul> <li>Statement of net assets</li> <li>Statement of activities</li> </ul>              | Balance sheet     Statement of revenues, expenditures and changes in fund balances   | <ul> <li>Statement of net assets</li> <li>Statement of revenues, expenses and changes in fund net assets</li> <li>Statement of cash flows</li> </ul> | Agency funds<br>statement of assets and<br>liabilities   |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus   | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus  |
| Type of asset/liability information    | All assets and liabilities,<br>both financial and<br>capital, short-term and<br>long-term | Only assets expected to<br>be used up and<br>liabilities that come due<br>during the year or soon<br>thereafter, no capital<br>assets included   | All assets and liabilities, both financial and capital, and short-term and long-term   | All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information     | All revenues and expenses during year, regardless of when cash is received or paid        | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid   | Increases and decreases to assets and liabilities  |

### **Government-wide Statements**

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets – the difference between the Township's assets and liabilities – is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities Most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, special assessments, and state and federal grants finance most of these activities.
- Business-type activities The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system is the only business-type activity.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Township's most significant funds – not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has only one governmental fund, the General Fund.
- Proprietary funds Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Water and Sewer Fund.

- In fact, the Township's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary funds The Township is the fiduciary, for assets held on the behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

### Financial Analysis of the Township as a Whole

### Net assets

The Township's governmental activities net assets are \$11.8 million. The unrestricted governmental activities net assets are \$8.1 million. Business-type activities net assets are \$12.9 million with \$6.6 million being invested in capital assets net of related debt.

### **Governmental Activities**

The Township's General Fund revenues were \$5.4 million this year. Property taxes were \$1.0 million or 19.8% of the total revenues. Federal grants, local grants, and State revenue sharing made up \$1.6 million or 30% of the total revenue. Special assessments for capital improvements and garbage service were \$1.9 million (35%). The remaining 15.2% of General Fund revenues are comprised mostly of miscellaneous revenues, Charges for Services and Interest Revenue.

### **Business-Type Activities**

Operating revenues of the Township's business-type activities decreased \$720 from the prior year of \$2,327,501 to the current year total of \$2,326,781. Operating expenses increased by \$269,260. The major factors contributing to the increase was fitting and video taping of sewer and water lines. Net changes from non-operating activities increased from revenue of \$521,222 to a revenue of \$1,101,343, due mainly to reimbursement by residents for portions of infrastructure improvements.

### **Davison Township's Net Assets**

|   |                               | rnment<br>ivities             |  |                                     | Tot                                     | al                                      |  |
|---|-------------------------------|-------------------------------|--|-------------------------------------|---|---|--|
|   | 2005                          | 2004                          | <u>2005</u>                            | <u>2004</u>                         | 2005                                    | <u>2004</u>                             |  |
| Current and other assets<br>Capital assets                            | \$ 8,538,958<br>3,413,424     | \$ 7,817,380<br>2,454,654     | \$ 7,741,610<br>7,103,175              | \$ 7,343,704<br>6,859,332           | \$16,280,568<br>10,516,599              | \$15,161,084<br>9,313,986               |  |
| Total assets  | \$11,952,382                  | \$10,272,034                  | \$14,844,785                           | \$14,203,036                        | \$26,797,167                            | \$24,475,070                            |  |
| Long-term liabilities outstanding Other liabilities Total liabilities | \$ -<br>198,910<br>\$ 198,910 | \$ -<br>203,393<br>\$ 203,393 | \$ 310,000<br>1,611,643<br>\$1,921,643 | \$ 465,000<br>310,881<br>\$ 775,881 | \$ 310,000<br>1,810,553<br>\$ 2,120,553 | \$ 465,000<br>1,514,274<br>\$ 1,979,274 |  |
| Net assets: Invested in capital assets, net of related debt           | \$ 3,413,424                  | \$ 2,454,654                  | \$ 6,638,175                           | \$ 6,239,332                        | \$10,051,599                            | \$ 8,693,986                            |  |
| Restricted Unrestricted   | 222,381<br>8,117,667          | 282,639<br>7,331,348          | 6,284,967                              | 6,187,823                           | 222,381<br>14,402,634                   | 282,639<br>13,519,171                   |  |
| Total net assets  | \$11,753,472                  | \$10,068,641                  | \$12,923,142                           | \$12,427,155                        | \$24,676,614                            | \$22,495,796                            |  |

### **Davison Township's Changes in Net Assets**

|                               |              | rnment<br>vities |              | ess-type<br>vities | Total        |              |  |
|-------------------------------|--------------|------------------|--------------|--------------------|--------------|--------------|--|
|                               | <u>2005</u>  | 2004             | <u>2005</u>  | 2004               | <u>2005</u>  | <u>2004</u>  |  |
| Revenues:                     |              |                  |              |                    |              |              |  |
| Program revenues:             |              |                  |              |                    | A 4 0 40 500 | A 4 600 050  |  |
| Charges for services          | \$ 2,021,922 | \$ 1,895,096     | \$ 2,326,781 | \$ 2,733,174       | \$4,348,703  | \$ 4,628,270 |  |
| Operating grants and          |              |                  |              |                    | 440.504      | 100.005      |  |
| contributions                 | 119,784      | 189,237          | -            | -                  | 119,784      | 189,237      |  |
| Capital grants and            |              |                  |              |                    |              |              |  |
| contributions                 | 973,494      | 575,373          | 924,713      | -                  | 1,898,207    | 575,373      |  |
| General revenues:             |              |                  |              |                    |              |              |  |
| Property taxes                | 1,077,648    | 1,014,321        | -            | -                  | 1,077,648    | 1,014,321    |  |
| Grants and contributions no   | ot           |                  |              |                    |              |              |  |
| restricted to specific        |              |                  |              |                    |              | 4.044.000    |  |
| programs                      | 1,333,527    | 1,366,379        | -            | -                  | 1,333,527    | 1,366,379    |  |
| Other                         | 303,504      | 284,577          | 205,987      | 153,095            | 509,491      | 437,672      |  |
| Total revenues                | 5,829,879    | 5,324,983        | 3,457,481    | 2,886,269          | 9,287,360    | 8,211,252    |  |
| Expenses:                     |              |                  |              |                    |              |              |  |
| Legislative                   | 135,720      | 68,760           | -            | •                  | 135,720      | 68,760       |  |
| General government            | 1,065,950    | 892,715          | -            | -                  | 1,065,950    | 892,715      |  |
| Public works                  | 734,259      | 799,851          | -            | -                  | 734,259      | 799,851      |  |
| Public safety                 | 2,209,119    | 2,244,577        | -            | -                  | 2,209,119    | 2,244,577    |  |
| Water and sewer               | _            | -                | 2,961,494    | 2,700,423          | 2,961,494    | 2,700,423    |  |
| Total expenses                | 4,145,048    | 4,005,903        | 2,961,494    | 2,700,423          | 7,106,542    | 6,706,326    |  |
| Increase in net assets before |              |                  |              |                    |              |              |  |
| transfers                     | 1,684,831    | 1,319,080        | 495,987      | 185,846            | 2,180,818    | 1,504,926    |  |
| Transfers                     |              |                  | <u> </u>     |                    |              | -            |  |
| Increase in net assets        | 1,684,831    | 1,319,080        | 495,987      | 185,846            | 2,180,818    | 1,504,926    |  |
| Net assets - July 1, 2004     | 10,068,641   | 8,749,561        | 12,427,155   | 12,241,309         | 22,495,796   | 20,990,870   |  |
| Net assets - June 30, 2005    | \$11,753,472 | \$10,068,641     | \$12,923,142 | \$12,427,155       | \$24,676,614 | \$22,495,796 |  |

### Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$7.6 million. This was an increase of \$313,142 from the prior year.

### **Capital Assets**

At the end of 2005, the Township had invested \$10,051,599 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having townships gather together all of the required information, GASB has allowed smaller units of government like Davison Township to report infrastructure assets on a prospective basis after adopting the new reporting standard.

### **Davison Township Capital Assets**

(net of depreciation)

|                         |             | Government Activities |             | ess-type<br>vities | Total        |             |  |
|-------------------------|-------------|-----------------------|-------------|--------------------|--------------|-------------|--|
|                         | <u>2005</u> | 2004                  | <u>2005</u> | <u>2004</u>        | 2005         | <u>2004</u> |  |
| Land                    | \$ 851,150  | \$ 851,150            | \$ -        | \$ -               | \$ 851,150   | \$ 851,150  |  |
| Buildings and system    | 504,259     | 538,534               | 45,566      | 47,887             | 549,825      | 586,421     |  |
| Improvements other      |             |                       |             |                    |              |             |  |
| than buildings          | 1,742,658   | 751,201               | -           | -                  | 1,742,658    | 751,201     |  |
| Machinery and equipment | 315,357     | 313,769               | 109,010     | 51,906             | 424,367      | 365,675     |  |
| Infrastructure          | _           | -                     | 6,948,599   | 6,759,539          | 6,948,599    | 6,759,539   |  |
| Total                   | \$3,413,424 | \$2,454,654           | \$7,103,175 | \$6,859,332        | \$10,516,599 | \$9,313,986 |  |

### **Long-term Debt**

At the end of the current fiscal year, Davison Township had total debt outstanding of \$465,000. Of this amount, \$465,000 comprises debt backed by the full faith and credit of the government.

### Davison Township's Outstanding Debt

General Obligation and Revenue Bonds

|                          |     |     | rnment<br>vities |     |             | ess-type<br>vities | Total       |             |  |
|--------------------------|-----|-----|------------------|-----|-------------|--------------------|-------------|-------------|--|
|                          | 2   | 005 | 2                | 004 | <u>2005</u> | 2004               | <u>2005</u> | <u>2004</u> |  |
| General obligation bonds | \$_ | -0- | \$               | -0- | \$465,000   | \$620,000          | \$465,000   | \$620,000   |  |

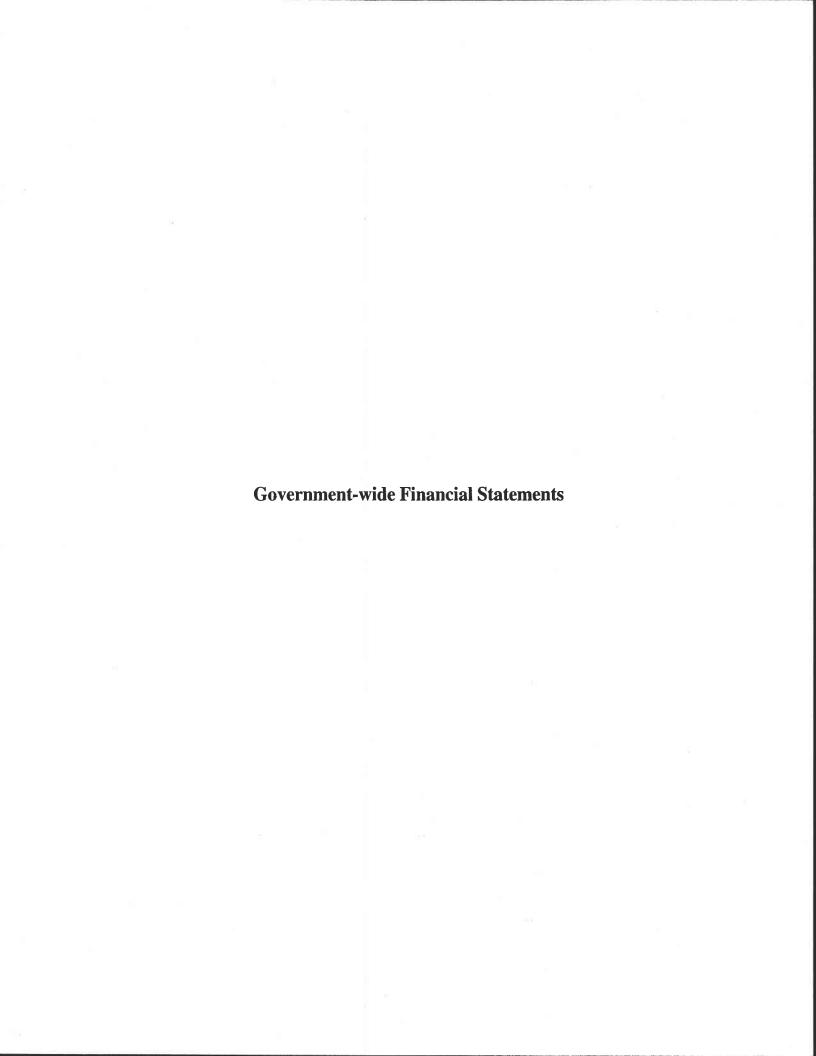
### **Limitations on Debt**

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$5.7 million. The Township's water and sewer is exempted from consideration in the 10% limit computation.

### Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Davison Township Clerk's Department.





### Davison Township Statement of Net Assets June 30, 2005

|   | Primary Government         |    |                                   |    |                               |
|---|----------------------------|----|-----------------------------------|----|-------------------------------|
|   | Governmental<br>Activities |    | ess-Type<br>tivities              |    | Total                         |
| Assets  |                            |    |                                   |    |                               |
| Cash and cash equivalents Investments Receivables:  | \$ 3,525,529<br>3,508,326  |    | 1,680,785<br>5,136,095            | \$ | 5,206,314<br>8,644,421        |
| Accounts Accrued interest receivable  | 21,868<br>15,155           |    | 257,775<br>14,835                 |    | 279,643<br>29,990             |
| Special assessments Water and sewer tap-ins   | 771,367<br>-               |    | 107,261                           |    | 771,367<br>107,261            |
| Unbilled receivable  Due from other governments   | 294,938<br>401,775         |    | 441,134                           |    | 441,134<br>294,938            |
| Internal balances Restricted cash and cash equivalents Capital assets (net of accumulated depreciation) | 401,775<br>-<br>3,413,424  |    | (401,775)<br>505,500<br>7,103,175 |    | 505,500<br>10,516,599         |
| Total assets  | 11,952,382                 | 1  | 4,844,785                         |    | 26,797,167                    |
| Liabilities and Net Assets  |                            |    |                                   |    |                               |
| Liabilities: Accounts payable   | 112,264                    |    | 68,951                            |    | 181,215                       |
| Deposits Due to other governments Contractor advances   | 66,646<br>20,000           |    | 325,672<br>344,678<br>717,342     |    | 392,318<br>364,678<br>717,342 |
| Noncurrent liabilities:  Due within one year  Due in more than one year                                 | 2                          |    | 155,000<br>310,000                |    | 155,000<br>310,000            |
| Total liabilities   | 198,910                    |    | 1,921,643                         |    | 2,120,553                     |
| Net assets: Invested in capital assets, net of related debt   | 3,413,424                  |    | 6,638,175                         |    | 10,051,599                    |
| Restricted for: Disaster relief Solid waste disposal  | 1,740<br>142,479           | 61 | -                                 |    | 1,740<br>142,479              |
| Lighting districts Unrestricted   | 78,162<br>8,117,667        |    | 6,284,967                         |    | 78,162<br>14,402,634          |
| Total net assets  | \$ 11,753,472              | \$ | 12,923,142                        | \$ | 24,676,614                    |

### Davison Township Statement of Activities June 30, 2005

Program revenues

| Functions\Programs  | 1  | Expenses                                     | C  | Charges for<br>Services              | Gr | perating<br>ants and<br>tributions |
|---|----|--|----|--------------------------------------|----|------------------------------------|
| Primary government Governmental activities: General government Legislative Public works Public safety | \$ | 1,065,950<br>135,720<br>734,259<br>2,209,119 | \$ | 236,113<br>-<br>581,143<br>1,204,666 | \$ | 41,089<br>-<br>-<br>78,695         |
| Total governmental activities   |    | 4,145,048                                    |    | 2,021,922                            |    | 119,784                            |
| Business-type activities Water and sewer  | -  | 2,961,494                                    |    | 2,326,781                            |    | 7                                  |
| Total business-type activities  |    | 2,961,494                                    |    | 2,326,781                            |    | (#)                                |
| Total primary government  | \$ | 7,106,542                                    | \$ | 4,348,703                            | \$ | 119,784                            |

### General revenues:

Property taxes
Unrestricted grants and contributions
Unrestricted investment earnings
Unrestricted earnings
Gain on sale of capital assets

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (Expense) Revenue and Changes in Net Assets

|                                  |           | P   | rimary Governn              | nent  |
|----------------------------------|-----------|---|-----------------------------|---|
| Capital Grants and Contributions |           | Governmental<br>Activities                        | Business-type<br>Activities | Total   |
| \$                               | 973,494   | \$ (788,748)<br>(135,720)<br>820,378<br>(925,758) | \$ -<br>-<br>-              | \$ (788,748)<br>(135,720)<br>820,378<br>(925,758) |
|                                  | 973,494   | (1,029,848)                                       | -                           | (1,029,848)                                       |
|                                  | 924,713   |   | 290,000                     | 290,000   |
|                                  | 924,713   | (1,000,040)                                       | 290,000                     | 290,000   |
| \$_                              | 1,898,207 | = (1,029,848)                                     | 290,000                     | (739,848)   |
|                                  |           |   |                             |   |
|                                  |           | 1,077,648   | -                           | 1,077,648   |
|                                  |           | 1,333,527   | <u>-</u>                    | 1,333,527   |
|                                  |           | 101,596   | 205,987                     | 307,583   |
|                                  |           | 190,298   | -                           | 190,298<br>11,610                                 |
|                                  |           | 11,610  | -                           | 11,010  |
|                                  |           | 2,714,679   | 205,987                     | 2,920,666   |
|                                  |           | 1,684,831   | 495,987                     | 2,180,818   |
|                                  |           | 10,068,641  | 12,427,155                  | 22,495,796  |
|                                  |           | \$ 11,753,472                                     | \$ 12,923,142               | \$ 24,676,614                                     |



# Davison Township Balance Sheet Governmental Fund- General Fund For the Year Ended June 30, 2005

| Cash and cash equivalents Investments | U |  | 9 | \$ | 3,525,529<br>3,508,326 |
|---------------------------------------|---|--|---|----|------------------------|
| Receivables:                          |   |  |   |    |                        |
| Accounts                              |   |  |   |    | 21,868                 |
| Special assessments                   |   |  |   |    | 771,367                |
| Accrued interest                      |   |  |   |    | 15,155                 |
| Due from other funds                  |   |  |   |    | 401,775                |
| Due from other governments            |   |  | - |    | 294,938                |
| Total assets                          |   |  | _ | \$ | 8,538,958              |
| Liabilities                           |   |  |   |    |                        |
| Accounts payable                      |   |  |   | \$ | 112,264                |
| Deposits                              |   |  |   |    | 66,646                 |
| Due to other funds                    |   |  |   |    | 20,000                 |
| Deferred revenue                      |   |  | - | _  | 771,367                |
| Total liabilities                     |   |  | _ |    | 970,277                |

| Fund Balance                                  |                 |
|---|-----------------|
| Reserved for disaster                         | 1,740           |
| Reserved for solid waste disposal             | 142,479         |
| Reserved for lighting districts               | 78,162          |
| Unreserved:                                   |                 |
| Designated for subsequent year's expenditures | 728,230         |
| Undesignated                                  | <br>6,618,070   |
| Total fund balance                            | 7,568,681       |
| Total liabilities and fund balance            | \$<br>8,538,958 |
|   |                 |

**Assets** 

# Davison Township Reconciliation of the Fund Balance as Reported in the Governmental Fund Balance Sheet to the Statement of Net Assets June 30, 2005

| Total General Fund fund balance as reported in the Balance<br>Sheet Governmental Fund - General Fund   | \$ 7  | ,568,681 |
|--|-------|----------|
| Amounts reported for governmental activities in the statement of net assets are different because:   |       |          |
| Capital assets used in governmental activities are not available to pay for current period expenditures and, therefore, are not recorded in the General Fund | 3     | ,413,424 |
| Long-term special assessments receivable are not available to pay for current period expenditures and, therefore, are deferred in the General Fund           |       | 771,367  |
| Net Assets - Governmental Activities   | \$ 11 | ,753,472 |

# Davison Township Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Fund - General Fund June 30, 2005

| Revenues:                            | ф  | 1.055.640 |
|--------------------------------------|----|-----------|
| Taxes                                | \$ | 1,077,648 |
| Licenses and permits                 |    | 217,149   |
| Intergovernmental:                   |    | 005.500   |
| Federal                              |    | 235,582   |
| State                                |    | 1,334,516 |
| Local                                |    | 48,485    |
| Fines                                |    | 60,353    |
| Charges for services                 |    | 212,538   |
| Special assessments                  |    | 1,870,800 |
| Interest                             |    | 101,596   |
| Miscellaneous                        | _  | 260,024   |
| Total revenues                       | _  | 5,418,691 |
| Expenditures:                        |    |           |
| Current:                             |    |           |
| General government:                  |    |           |
| General government                   |    | 417,321   |
| Supervisor                           |    | 125,758   |
| Clerk                                |    | 161,764   |
| Treasurer                            |    | 111,648   |
| Township hall and grounds            |    | 219,437   |
| Assessing department                 |    | 120,816   |
| Legislative:                         |    |           |
| Township board                       |    | 72,965    |
| Public works                         |    | 1,687,120 |
| Public safety:                       |    |           |
| Police                               |    | 1,686,689 |
| Fire                                 |    | 251,576   |
| Building inspection                  | _  | 250,455   |
| Total expenditures                   | _  | 5,105,549 |
| Excess of revenues over expenditures |    | 313,142   |
| Fund balance - beginning of year     |    | 7,255,539 |
| Fund balance - end of year           | _  | 7,568,681 |

## Davison Township Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund - General Fund to the Statement of Activities

### For the Year Ended June 30, 2005

The change in net assets reported for governmental activities in the statement of activities (page 12) is different because:

| Net change in fund balance - General Fund (page 15)  | \$ | 313,142   |
|--|----|-----------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. |    | 958,770   |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.   | N. | 412,919   |
| Change in net assets of governmental activities (page 12)  | \$ | 1,684,831 |

## Davison Township Statement of Net Assets Proprietary Fund - Sewer and Water Fund June 30, 2005

| Assets  |    |                   |
|---|----|-------------------|
| Current assets:  Cash and cash equivalents      | \$ | 1,680,785         |
| Investments                                     | •  | 5,136,095         |
| Receivables:                                    |    |                   |
| Accounts  |    | 257,775           |
| Accrued interest                                |    | 14,835            |
| Water and sewer tap-ins - current               |    | 16,600<br>441,134 |
| Unbilled fees receivable                        |    | 38,317            |
| Due from other funds                            |    | 36,317            |
| Total current assets                            |    | 7,585,541         |
| Noncurrent assets:                              |    |                   |
| Restricted cash and cash equivalents            |    | 505,500           |
| Water and sewer tap-ins - noncurrent            |    | 90,661            |
| Capital assets-net of accumulated depreciation  |    | 7,103,175         |
| Total noncurrent assets                         |    | 7,699,336         |
| Total assets                                    |    | 15,284,877        |
|   |    |                   |
| Liabilities                                     |    | 12                |
| Current liabilities:                            |    |                   |
| Accounts payable                                |    | 68,951            |
| Deposits  |    | 325,672           |
| Due to other funds                              |    | 440,092           |
| Due to other governments                        |    | 344,678           |
| Long-term debt - current                        |    | 155,000           |
| Total current liabilities                       |    | 1,334,393         |
| Noncurrent liabilities:                         |    |                   |
| Contractor's advances                           |    | 717,342           |
| Long-term debt                                  |    | 310,000           |
|   |    | 1 005 040         |
| Total noncurrent liabilities                    | -  | 1,027,342         |
| Total liabilities                               |    | 2,361,735         |
| Net Assets                                      |    |                   |
| Invested in capital assets, net of related debt |    | 6,638,175         |
| Unrestricted                                    |    | 6,284,967         |
|   |    | 10.000.115        |
| Total net assets                                | \$ | 12,923,142        |

# Davison Township Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Fund - Sewer and Water Fund For the Year Ended June 30, 2005

| Operating revenues:                    |     |            |
|--|-----|------------|
| Charges for services                   | \$  | 2,257,065  |
| Water meters                           |     | 48,791     |
| Miscellaneous                          | -   | 20,925     |
| Total operating revenues               | _   | 2,326,781  |
| Operating expenses:                    |     | S          |
| Personnel services                     |     | 423,987    |
| Sewer and water usage and billing fees |     | 1,793,596  |
| Insurance                              |     | 5,000      |
| Heat, light, and power                 |     | 158,712    |
| Depreciation                           |     | 338,950    |
| Miscellaneous                          | -   | 211,892    |
| Total operating expenses               | ×   | 2,932,137  |
| Operating loss                         |     | (605,356)  |
| Nonoperating revenues (expenses):      |     |            |
| Interest income                        |     | 205,987    |
| Interest expense and fiscal charges    | -   | (29,357)   |
| Loss before contributions              |     | (428,726)  |
| Capital contributions                  | _   | 924,713    |
| Net income                             |     | 495,987    |
| Net assets - beginning of year         |     | 12,427,155 |
| Net assets - end of year               | _\$ | 12,923,142 |

# Davison Township Statement of Cash Flows Proprietary Fund - Sewer and Water Fund For the Year Ended June 30, 2005

| Cubit 1000110d 110111 Cubiciliate  | \$ | 2,212,839            |
|--|----|----------------------|
| Cash payments to suppliers and employees   |    | (2,528,296)          |
| Net cash used in operating activities  |    | (315,457)            |
| Cash flows from investing activities:  |    | (5.010.505)          |
| Purchase of investments  |    | (5,218,705)          |
| Interest on tap-ins  |    | 205,987              |
| Net cash used in investing activities  |    | (5,012,718)          |
| Cash flows from capital and related financing activities:  |    | (4.55.000)           |
| Payments on long term debt   |    | (155,000)            |
| Interest expense and fiscal charges  |    | (29,357)<br>(80,145) |
| Payments on construction advances liability  |    | (582,794)            |
| Purchase of capital assets Capital contributions   |    | 501,823              |
| Deposits from developers for capital projects  |    | 293,517              |
| Payments received on tap-ins   |    | 16,750               |
| Taymonts received on tap mo  |    |                      |
| Net cash provided by capital and related financing activities                                    | •  | (35,206)             |
| Net decrease in cash and   |    |                      |
| cash equivalents   |    | (5,363,381)          |
| Cash and cash equivalents - beginning of the year  |    | 7,044,166            |
| Cash and cash equivalents - end of the year  | \$ | 1,680,785            |
| Reconciliation of operating loss to net cash used in operating activities:                       |    |                      |
|  | \$ | (605,356)            |
| Operating loss Adjustments to reconcile operating loss to net cash used in operating activities: | Þ  | (005,550)            |
| Depreciation   |    | 338,950              |
| Change in assets and liabilities:  |    |                      |
| Increase in accounts receivable  |    | (144,442)            |
| Increase in due from other funds   |    | (22,211)             |
| Increase in accounts payable   |    | 56,891               |
| Increase in deposits   |    | 30,500               |
| Increase in due to other funds   |    | 30,211               |
| Net cash used in operating activities  | \$ | (315,457)            |

# Davison Township Statement of Assets and Liabilities Fiduciary Funds June 30, 2005

|  | Cur<br>Tax l |     |    | General<br>Agency | <br>Totals   |
|--|--------------|-----|----|-------------------|--------------|
| Assets   |              |     |    |                   |              |
| Cash and cash equivalents Due from other funds | \$           | - 1 | \$ | 20,000            | \$<br>20,000 |
| Total assets                                   | \$           | 1   | \$ | 20,000            | \$<br>20,001 |
| Total assets                                   |              |     |    |                   |              |
|  |              |     | W  |                   |              |
| Liabilities                                    |              |     |    |                   |              |
| Deposits Due to other funds                    | \$           | 11  | \$ | 20,000            | \$<br>20,000 |
| Total liabilities                              | \$           | 1   | \$ | 20,000            | \$<br>20,001 |



### I. Summary of significant accounting policies

### A. Financial reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of Davison Township, Michigan (the primary government) and its component units. Component units are legally separate entities for which the Township is considered to be financially accountable. The Township had no component units at June 30, 2005.

The following organizations are not considered component units of Davison Township and are excluded from the accompanying financial statements for the reasons stated.

### Davison-Richfield Area Fire Authority and Davison Richfield Senior Citizens Authority:

- Serve several communities outside of Davison Township.
- Are legally organized as joint ventures with Davison Township, the City of Davison, and Richfield Township and are financed primarily through contributions from the above municipalities.

The Davison-Richfield Area Fire Authority and the Davison Senior Citizens Authority have June 30 year-ends. Audited financial statements of the authorities for the year ended June 30, 2005, are available for public inspection at authority headquarters.

### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

### I. Summary of significant accounting policies – (continued)

### B. Government-wide and fund financial statements – (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, state revenue sharing, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The Water Supply and Sewer Disposal System Enterprise Fund is maintained for the operations of the water distribution system and sewage pumping and collection systems.

### I. Summary of significant accounting policies – (continued)

### C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Additionally, the government reports the following fund types:

Agency Funds account for assets held by the Township as an agent for individuals, private organizations and other governments. Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

### D. Assets, liabilities, and net assets or equity

### 1. Deposits

Cash deposits are carried at cost consisting of checking accounts, certificates of deposits, and other readily usable cash funds. The carrying value of deposits is separately displayed on the balance sheet as "cash and cash equivalents." For purpose of the Water and Sewer Fund Statement of Cash Flows, a cash and cash equivalent is defined as any liquid investment with a maturity of ninety days or less at the time of purchase.

### I. Summary of significant accounting policies – (continued)

### D. Assets, liabilities, and net assets or equity – (continued)

### 2. Investments

Investments for the Township are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

### 3. Receivables and payables

In general, outstanding balance between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an estimated allowance for uncollectibles.

#### 4. Restricted assets

Restricted assets in the Sewer and Water Enterprise fund consist of monies held for payment of long-term debt.

### Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u>         | Years       |
|-----------------------|-------------|
| Buildings             | 39 years    |
| Building improvements | 5-39 years  |
| Infrastructure        | 15-40 years |
| Vehicles              | 5 years     |
| Office equipment      | 5-7 years   |
| Computer equipment    | 5 years     |

### I. Summary of significant accounting policies – (continued)

### D. Assets, liabilities, and net assets or equity – (continued)

### 6. Accumulated unpaid sick and vacation pay

Accumulated unpaid sick and vacation pay are not accrued by the Township. Substantially all Township employees are paid for unused sick and vacation days annually.

### 7. Long-term obligations

In the government-wide financial statements, and in the water and sewer enterprise fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity. Also, bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the general fund recognizes the face amount of debt issued as other financing sources.

### 8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### 9. Property tax

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable without penalty through February 28. The Township bills and collects its own property taxes and also collects taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. Township property tax revenues are recognized when levied to the extent that they are measurable and available in accordance with accounting standards. For the year ended June 30, 2005, the Township levied .8741 mills for general operating costs, and 1.4338 mills for police services. The millage for police services was renewed May 15, 2001 for a period of 10 years, 2001 to 2010, at 1.5 mills.

#### II. Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances -total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

| Capital outlay  | \$1,153,689       |
|---|-------------------|
| Depreciation expense  | (193,187)         |
| Loss on disposal of capital asset                           | (1,732)           |
| Net adjustment to increase net changes in fund balances -   |                   |
| total governmental funds to arrive at changes in net assets |                   |
| of governmental activities                                  | <u>\$ 958,770</u> |

#### III. Stewardship, compliance, and accountability

#### **Budgetary information**

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to June 30, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund. Informational summaries of projected revenues and expenditures are provided for the Water and Sewer Enterprise Fund.
- 2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- 3. Prior to June 30, the budget is legally enacted on a departmental (activity) basis for the General Fund through passage of a resolution and in accordance with Public Act 621 of 1978 of the State of Michigan.
- 4. The Supervisor or his designee is authorized to transfer budgeted amounts within General Fund departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
- 5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- 6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- 7. Budget appropriations lapse at year-end except for approved contracts and certain federal grants, which are appropriated on a contract (grant) length basis.

#### III. Stewardship, compliance, and accountability – (continued)

**Budgetary information** – (continued)

8. The original budget was amended during the year in accordance with Township ordinance and applicable state laws.

#### IV. Detailed notes on all funds

#### A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorized local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated four banks for the deposit of it's funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$11,103,329 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### IV. Detailed notes on all funds - (continued)

#### A. Deposits and investments - (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

| Type of               | Carrying     |              |
|-----------------------|--------------|--------------|
| Investment            | <u>Value</u> | How Held     |
| Repurchase agreements | \$3,100,336  | Counterparty |

#### B. Receivables

Receivables as of year end for the Township's General fund and Sewer and Water Enterprise fund in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                                    | General<br><u>Fund</u> | Sewer and Water Fund |
|------------------------------------|------------------------|----------------------|
| Governmental activities:           |                        |                      |
| Receivables:                       |                        |                      |
| Interest and dividends             | \$ 15,155              | \$ 14,835            |
| Accounts                           | 21,868                 | 698,909              |
| Special assessment                 | 771,367                | -                    |
| Tap-ins                            | <b>4</b> 3             | 107,261              |
| Intergovernmental                  | 294,938                |                      |
| Gross receivables                  | 1,103,328              | 821,005              |
| Less: allowance for uncollectibles | _                      | -                    |
| Net total receivables              | \$1,103,328            | \$821,005            |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

|  | <u>Unavailable</u> | Unearned |
|--|--------------------|----------|
| Special Assessments not yet due (General Fund) | \$771,367          | \$ -0-   |

#### IV. Detailed notes on all funds - (continued)

#### C. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

|  | Beginning Balance | Increases  | Decreases  | Ending Balance |
|--|-------------------|------------|------------|----------------|
| Governmental activities:                                     |                   |            |            |                |
| Capital assets, not being depreciated:                       |                   |            |            |                |
| Land   | \$ 851,150        | \$ -       | \$ -       | \$ 851,150     |
| Capital assets, being depreciated:                           |                   |            |            |                |
| Buildings and improvements                                   | 1,045,907         | -          | -          | 1,045,907      |
| Improvements other than buildings                            | 148,281           | -          | -          | 148,281        |
| Infrastructure   | 671,677           | 1,052,556  | -          | 1,724,233      |
| Furniture and equipment                                      | 731,171           | 101,133    | (102,057)  | 730,247        |
| Total capital assets being depreciated                       | 2,597,036         | 1,153,689  | (102,057)  | 3,648,668      |
| Less accumulated depreciation for:                           |                   |            |            |                |
| Buildings  | (507,373)         | (34,275)   | -          | (541,648)      |
| Improvements other than buildings                            | (68,400)          | (11,889)   | •          | (80,289)       |
| Infrastructure   | (356)             | (49,210)   | -          | (49,566)       |
| Furniture and equipment                                      | (417,403)         | (97,813)   | 100,325    | (414,891)      |
| Total accumulated depreciation                               | (993,532)         | (193,187)  | 100,325    | (1,086,394)    |
| Total capital assets, being depreciated, net                 | 1,603,504         | 960,502    | (1,732)    | 2,562,274      |
| Governmental activities capital assets, net                  | \$2,454,654       | \$ 960,502 | \$ (1,732) | \$ 3,413,424   |
| Business-type activities: Capital assets, being depreciated: |                   |            |            |                |
| Buildings and improvements                                   | \$ 110,417        | \$ -       | \$ -       | \$ 110,417     |
| Investment in sewer and water system                         | 14,771,195        | 522,470    | -          | 15,293,665     |
| Furniture and equipment                                      | 112,082           | 60,323     | -          | 172,405        |
| Total capital assets, being depreciated                      | 14,993,694        | 582,793    | -          | 15,576,487     |
| Less accumulated depreciation for:                           |                   |            |            |                |
| Buildings and improvements                                   | (62,530)          | (2,321)    | -          | (64,851)       |
| Investment in sewer and water system                         | (8,011,656)       | (333,410)  | -          | (8,345,066)    |
| Furniture and equipment                                      | (60,176)          | (3,219)    |            | (63,395)       |
| Total accumulated depreciation                               | (8,134,362)       | (338,950)  | _          | (8,473,312)    |
| Total capital assets, being depreciated, net                 | 6,859,332         | 243,843    | )#1)       | 7,103,175      |
| Business-type activities capital assets, net                 | \$ 6,859,332      | \$ 243,843 | \$ -0-     | \$ 7,103,175   |

#### IV. Detailed notes on all funds - (continued)

#### C. Capital assets - (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

| General government | \$ 69,025 |
|--------------------|-----------|
| Public works       | 49,210    |
| Public safety      | 74,952    |
|                    |           |

Total depreciation expense – governmental activities \$193,187

Business-type activities:

Water and sewer \$338,950

#### D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

| Receivable Fund | Payable Fund    | Amount    |
|-----------------|-----------------|-----------|
| General         | Water and Sewer | \$401,775 |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

#### E. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of Business Type long-term debt transactions of the Township for the year ended June 30, 2005:

|                                      | Final      | Interest | Balance at  | Issuances          | Balance at  | Due       |
|--------------------------------------|------------|----------|-------------|--------------------|-------------|-----------|
|                                      | Payment    | Rate or  | June 30,    | (Retirements)      | June 30,    | within    |
|                                      | <u>Due</u> | Range    | <u>2004</u> | <b>During Year</b> | <u>2005</u> | One Year  |
| Business - Type Activities:          |            |          |             |                    |             |           |
| Enterprise Fund – contracts payable: |            |          |             |                    |             |           |
| Sanitary Sewer District #1           |            |          |             |                    |             |           |
| Township Lateral                     | 2008       | 5.0      | \$ 160,000  | \$ 40,000          | \$120,000   | \$ 40,000 |
| Sanitary Sewer District #1           |            |          |             |                    |             |           |
| Davison Township Sub-trunk           | 2008       | 4.0-4.9  | 400,000     | 100,000            | 300,000     | 100,000   |
| Genesee County Water Supply          |            |          |             |                    |             |           |
| System #2 Series 1                   | 2008       | 5.0      | 60,000      | 15,000             | 45,000      | 15,000    |
| Total Business - Type Activitie      | es         |          | \$620,000   | \$155,000          | \$465,000   | \$155,000 |

#### IV. Detailed notes on all funds - (continued)

#### E. Long-term debt – (continued)

Annual debt service requirements to maturity for the above obligations are as follows:

| Year End        | Business Type Activities |                 |  |
|-----------------|--------------------------|-----------------|--|
| <u>June 30,</u> | Principal                | <u>Interest</u> |  |
| 2006            | 155,000                  | 20,250          |  |
| 2007            | 155,000                  | 13,500          |  |
| 2008            | 155,000                  | 6,750           |  |
| Total           | \$465,000                | \$ 40,500       |  |

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10% of the assessed real and personal property in the Township. As of June 30, 2005, Davison Township has not incurred any indebtedness, which would be limited under Act 359. The Township's existing general long-term obligation bonds and other debt are specifically exempted from consideration in the 10% limit computation.

#### Deposits payable:

A \$20,000 cash bond was received from Cardinal Industries in June 1987 to be used to maintain a holding pond should Cardinal Industries (or a later owner) default on the maintenance of the holding pond. The holding pond was required before Cardinal Industries could construct a modular apartment complex. The bond would be refunded if the holding pond was no longer needed due to the construction of drains in the area in which the modular apartment complex is located. The cash bond was invested and, per the agreement with Cardinal Industries, the Township General Fund keeps all interest earned on the investment. The deposit is recorded as a liability in the general agency fund.

The Township has also received deposits from other developers to ensure completion of various developments within the township. These other deposits held by the General Fund and the Water and Sewer Enterprise equal \$364,678.

#### V. Joint ventures

1. In September 1979, Davison Township entered into a joint venture with the City of Davison to create a Senior Citizen's Authority. Richfield Township entered the joint venture effective July 1, 1996. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven-member board appointed by the governing bodies of the City and Townships. The agreement provides that the allocation will be 1/3 of the net expenses split equally between the three municipalities, with the exception of rental income and related expenses for a prior senior center location still owned by the Authority, which is applied against the City of Davison and Davison Township's portion of expenses only. All parties have contributed to the cost of the current activity center and share in its ownership on a percentage basis. All revenues from the current center are shared evenly. Both the old and current centers were constructed with federal grant dollars. In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2005, the Township's contribution to the Senior Authority was \$33,484. At June 30, 2005, the Township had a receivable of \$24,237 from the Authority for cash advances to meet operating needs.

#### V. Joint ventures – (continued)

#### 1. – (continued)

The majority of the Senior Citizens Authority's capital assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

2. In January 1972, Davison Township entered into a joint venture with the City of Davison and Richfield Township to create the Davison-Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven-member board appointed by the governing bodies of the city and townships. The agreement calls for each municipality to pay for costs of the Authority by a charge for each fire run to a point within its jurisdictional boundary.

During the year ended June 30, 2005, the Township was billed \$251,576 by the Authority. At year end, the Township owed \$66,090 to the Authority for fire run services.

Davison Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at authority headquarters.

#### VI. Other information

#### 1. Pension benefit plan

The Township has two separate pension plans, one for all union police officers and one for all other Township employees. Benefit provisions and contribution obligations have been established by the Township Board.

a. Full-time employees pension plan:

The Township had a defined contribution plan which covered all full-time employees (excluding all union police officers) over the age of eighteen administered by Manulife. The pension will be that amount which can be purchased by a contribution equal to 15% of an employee's effective annual compensation not including overtime and cost-of-living allowances. The Township will contribute 2/3 of the premium, and the employee will contribute 1/3 of the premium. An employee may make an additional voluntary contribution of up to 10% of his annual compensation. Payroll costs of all employees and plan participants during the year amounted to \$1,758,047 and \$365,813, respectively. During the current year, the General Fund contributed the Township's portion of the pension cost, amounting to \$39,149 (10% of covered payroll). Employees made required and voluntary contributions of \$22,951 to the plan during the current year, which equals 6% of payroll costs of plan participants. It is the policy of the Township to pay the pension costs as accrued. The plan was terminated on December 1, 2004 and all benefits and accumulated funding transferred to a Michigan Municipal Employees Retirement Septum defined benefit plan.

#### VI. Other information - (continued)

#### 1. **Pension benefit plan** – (continued)

#### b. Union police officers' pension plan:

#### (1) Plan description:

The Township police officers participate in the Michigan Municipal Employees Retirement System (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole.

Police officers are eligible for full retirement benefits upon completion of 25 years of service, at age 50 or age 60 with six years service. Straight life pension for police officers is calculated as follows: credited service at time of termination multiplied by 2.5% of the member's final average compensation (3 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2004, the date of the latest actuarial valuation, is comprised of 12 active members, 1 inactive member, and 3 retirees.

#### (2) Funding policy:

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Police employees are required to deposit 5.00% of all monetary compensation, including overtime. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate was 11.28% of annual covered payroll for police.

#### Actuarial assumptions:

Valuation date

Actuarial cost method

Amortization method

Remaining amortization period

Asset valuation method

December 31, 2004

Entry age normal

Level percent

30 years - open

5 year smoothed market

Investment rate of return 8.0%
Projected salary increases 4.5% - 12.90%
Includes inflation at 4.5%

#### VI. Other information – (continued)

#### 1. **Pension benefit plan** – (continued)

#### b. Union police officers' pension plan: - (continued)

#### (3) Net pension obligation

| Annual required contribution for the year  |           |   |
|--|-----------|---|
| ended June 30, 2005 (annual pension cost)  | \$ 46,992 |   |
| Contributions made                         | 46,992    | 2 |
| Change in net pension obligation           |           |   |
| Net pension obligation – beginning of year |           | • |
| Net pension obligation – end of year       | \$ -0-    | = |

#### (4) Annual pension costs

Two year trend information regarding the annual pension costs, percentage of APC contributed, and net pension obligation are summarized as follows:

| Plan<br>Year<br><u>End</u> | Actuarial Valuation <u>Date</u> | Annual Pension (APC) | Percent<br>Contributed | Net Pension<br>Obligation<br>at June 30 |
|----------------------------|---------------------------------|----------------------|------------------------|---|
| 12/31/03                   | 12/31/03                        | \$ 60,723            | 100.0%                 | \$                                      |
| 12/31/04                   | 12/31/04                        | 46,720               | 100.0                  |   |

#### c. Non-union pension plan:

#### (1) Plan description:

The Township's non-union and police lieutenant employees participate as a separate group in the Michigan Municipal Employees Retirement System (MERS) defined benefit plan which is an agent multiple-employer public employee retirement system (PERS). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole.

Employees are eligible for full retirement benefits upon age 60 with eight years service. Straight life pension for the non-union employees and police lieutenants is calculated as follows: credited service at time of termination multiplied by 2.25% of the member's final average compensation (5 highest consecutive years within the last 10 years of employment), up to a maximum of 80% of final average compensation.

Membership in the plan at December 31, 2004, the date of the latest actuarial valuation, is comprised of 27 active members. The plan was established December 1, 2004 to replace the previous defined contribution plan.

#### VI. Other information – (continued)

- 1. **Pension benefit plan** (continued)
  - c. Non-union pension plan: (continued)
    - (2) Funding policy:

The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. The Township's current rate was 4.13% of annual covered payroll.

#### Actuarial assumptions:

| Valuation date                | January 1, 2004        |
|-------------------------------|------------------------|
| Actuarial cost method         | Entry age normal       |
| Amortization method           | Level percent          |
| Remaining amortization period | 30 years - open        |
| Asset valuation method        | 5 year smoothed market |
| Investment rate of return     | 8.0%                   |
| Projected salary increases    | 4.5% - 12.90%          |
| Includes inflation at         | 4.5%                   |

#### (3) Net pension obligation

| Annual required contribution for the year          |              |  |
|--|--------------|--|
| ended June 30, 2005 (annual pension cost)          | \$ 28,316    |  |
| Contributions made                                 | 28,316       | _  |
| Change in net pension obligation                   | <del>2</del> |  |
| Net pension benefit obligation - beginning of year | <u> </u>     | _  |
| Net pension obligation – end of year               | \$ -0-       | <u>.                                    </u> |

#### (4) Annual pension costs

Trend information regarding the annual pension costs, percentage of APC contributed, and net pension obligation are summarized as follows:

| Plan       | Actuarial   |               |             | Net Pension |
|------------|-------------|---------------|-------------|-------------|
| Year       | Valuation   | Annual        | Percent     | Obligation  |
| <u>End</u> | <u>Date</u> | Pension (APC) | Contributed | at June 30  |
| 1/1/04     | 1/1/04      | \$ 28,316     | 100.0%      | \$          |

#### d. Post employment benefits other than pension:

The Township provides health benefits to certain employees after they retire or leave office. The ordinance provides that health, medical, and dental care benefits will be provided to eligible retirees if similar benefits are not available to the retiree. All employees and elected or appointed officials, except for those covered under a bargaining unit, age 55 or older with 20 years of continuous service are eligible.

#### VI. Other information – (continued)

#### 1. **Pension benefit plan** – (continued)

#### d. Post employment benefits other than pension: - (continued)

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, 9 retirees were eligible to receive these benefits. For the year, \$92,247 was expended in the General Fund to provide these benefits.

#### VII. Summary disclosure of contingent liabilities

#### A. Contingent liabilities:

The Township participates in the Department of Housing and Urban Development Community Block Grant Program. This program is subject to compliance audit by the granting agency. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

#### B. Tap-in fees advanced from developers:

The Township has a construction advance liability for monies advanced by developers for construction of water or sewer lines benefiting their properties. A liability in the amount of \$717,342 exists at June 30, 2005. The tap-in fee, which would normally be charged to the contractor for projects serviced, is applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area and 75% of the tap-in fee charged to anyone who taps into the constructed line outside of the stated development area will be applied against this amount advanced and paid back to the developer. Payments based on the current activity are remitted to the developer semi-annually. After twenty or thirty years, the developers will not be entitled to any further use of their advance regardless of whether or not they have used the full amount. Developers' interests in the various tap-in contracts still open at June 30, 2005 will expire during the period of March 2013 to February 10, 2023. At the expiration date of the agreement, any remaining construction advance liability will be reclassified to net investment in capital assets.

#### VIII. Segment information for Enterprise Funds

The Township maintains an Enterprise Fund which provides water and sewer services. Segment information for the year ended June 30, 2005, is as follows:

| €                               |             |              | Total                     |
|---------------------------------|-------------|--------------|---------------------------|
|                                 | Water       | Sewer        | Enterprise<br><u>Fund</u> |
| Operating revenues              | \$1,181,656 | \$ 1,145,125 | \$ 2,326,781              |
| Depreciation                    | 126,209     | 212,741      | 338,950                   |
| Operating loss                  | (224,470)   | (380,886)    | (605,356)                 |
| Non-operating revenues/expenses | 294,563     | 304,957      | 599,520                   |
| Capital contributions           | 379,374     | 122,449      | 501,823                   |
| Net income                      | 449,467     | 46,520       | 495,987                   |
|                                 |             |              |                           |

#### VIII. Segment information for Enterprise Funds – (continued)

|                                 | Water     | Sewer     | Total Enterprise Fund |
|---------------------------------|-----------|-----------|-----------------------|
| Property, plant, and equipment: |           |           |                       |
| Additions                       | 156,148   | 426,646   | 582,794               |
| Current assets                  | 3,702,152 | 3,883,389 | 7,585,541             |
| Current liabilities             | 611,056   | 723,337   | 1,334,393             |
| Net working capital             | 3,091,096 | 3,160,052 | 6,251,148             |
| Other liabilities               | 625,217   | 402,125   | 1,027,342             |
| Net assets                      | 6,617,569 | 6,305,573 | 12,923,142            |
| Total assets                    | 7,454,109 | 7,830,768 | 15,284,877            |
| Total bonds outstanding         | 45,000    | 420,000   | 465,000               |
|                                 |           |           |                       |

#### IX. Risk management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries. The Township has purchased commercial insurance for coverage of all claims except employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Township pays unemployment claims on a reimbursement basis.

#### X. Building department revenues and expenses

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The Act allows for monitoring these funds in a separate activity center within the General Fund and reserving General Fund fund balance for the excess of building departments revenues over expenditures since adoption of the Act. The activity related to construction code activity for the year ended June 30, 2005 and General Fund reserved fund balance at year end is as follows:

| Total revenues                    | \$195,798 |
|-----------------------------------|-----------|
| Less: expenditures                | 258,454   |
| Excess expenditures over revenues | \$ 62,656 |

#### XI. Construction commitment

The government has an active construction project as of June 30, 2005. The project includes a water main extension. At year end, the government's commitment with a contractor is as follows:

| <u>Project</u>       | Commitment |
|----------------------|------------|
| Water main extension | \$ 25,124  |

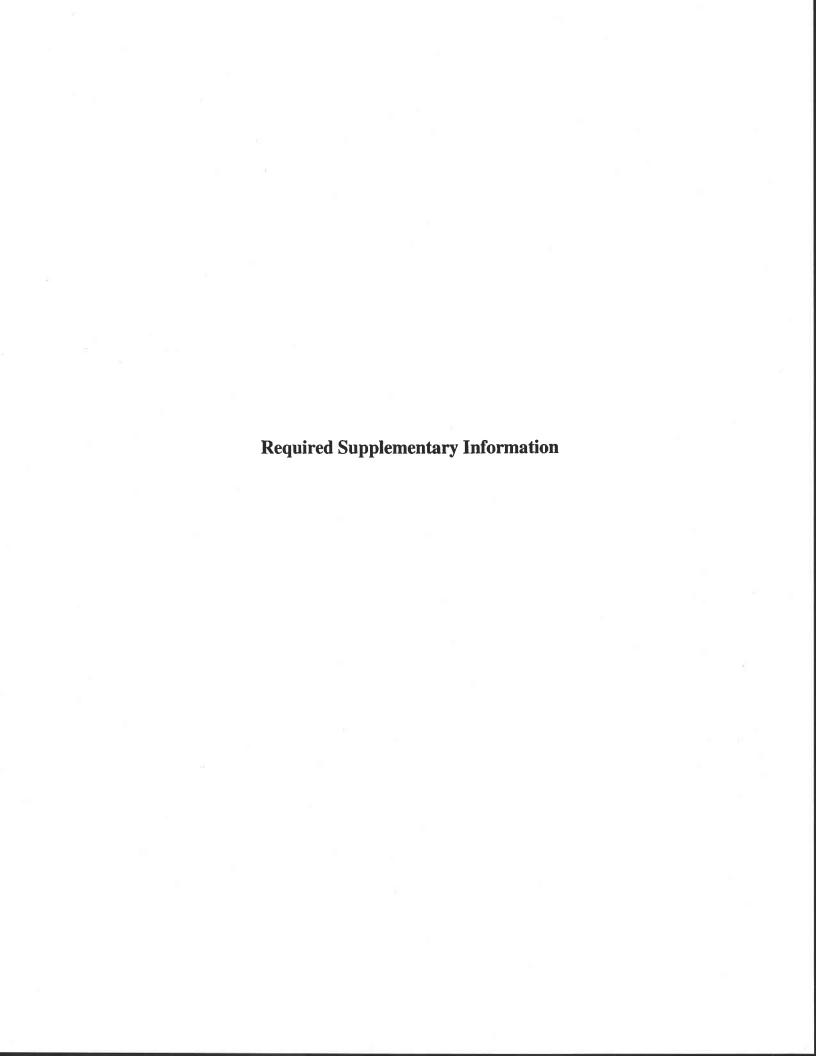
#### **XI.** Construction commitment – (continued)

Genesee County has committed to construct the water supply system southwestern loop within the Township boundaries. The Township has contracted with Genesee County to pay the portion of the cost of the construction based on the relative benefit to the Township and its residents. The estimated construction cost to be paid by the Township is \$250,000.

#### XII. Upcoming accounting changes

The Governmental Accounting Standards Board has recently released Statement No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pension). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statement for future reporting periods.

Effective July 1, 2005, the Township will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the statement requires all governments to account for insurance recoveries in the same manner. The Township's management does not believe this accounting change will have a significant impact.



# Davison Township Required Supplementary Information Analysis of Retirement System Funding Progress

#### Pension Plans Schedule of Funding Progress

| Plan<br>Year<br><u>End</u>       | Actuarial<br>Valuation<br><u>Date</u> | Actuarial Value of Assets (a)         | Actuarial Accrued Liability Entry Age (AAL) (b) (1) | (Unfunded) Over funded AAL (UAAL) (b-a) | Funded<br>Ratio<br>(a/b) | Covered Payroll (c)             | UAAL<br>as % of<br>Covered<br>Payroll<br>(b-a)/c) |
|----------------------------------|---------------------------------------|---------------------------------------|---|---|--------------------------|---------------------------------|---|
| Union Poli                       | ice Officer's Pe                      | ension Plan:                          |   |   |                          |                                 |   |
| 12/31/02<br>12/31/03<br>12/31/04 | 12/31/02<br>12/31/03<br>12/31/04      | \$1,199,805<br>1,399,200<br>1,460,600 | \$1,340,882<br>1,820,853<br>2,014,809               | \$(141,077)<br>(421,653)<br>(554,209)   | 89.5%<br>77.0<br>72.5    | \$607,456<br>553,621<br>616,153 | 23.2%<br>76.2<br>90.0                             |

An actuary report for the non-union pension plan is not available.

#### Pension Plan Schedules of Employer Contributions

|                 | Plan<br>Year<br><u>End</u>       | Actuarial<br>Valuation<br><u>Date</u> | Annual Required Contribution (ARC) | Percent<br>Contributed   |
|-----------------|----------------------------------|---------------------------------------|------------------------------------|--------------------------|
| Union Police Of | ficers Pension                   | Plan:                                 |                                    |                          |
|                 | 12/31/02<br>12/31/03<br>12/31/04 | 12/31/02<br>12/31/03<br>12/31/04      | \$ 46,720<br>60,723<br>46,992      | 100.0%<br>100.0<br>100.0 |
| Non-union Pensi | on Plan:                         |                                       |                                    |                          |
|                 | 12/31/04                         | 12/31/04                              | \$ 28,316                          | 100.0%                   |

# Davison Township General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund For the Year Ended June 30, 2005

|                                  | Budgeted Amounts |              | Actual       | Variance<br>with Final |  |
|----------------------------------|------------------|--------------|--------------|------------------------|--|
|                                  | Original         | Final        | Amounts      | Budget                 |  |
| Revenues:                        | ,                |              |              |                        |  |
| Taxes                            | \$1,084,631      | \$ 1,084,631 | \$ 1,077,648 | \$ (6,983)             |  |
| Licenses and permits             | 164,850          | 164,850      | 217,149      | 52,299                 |  |
| Intergovernmental:               |                  |              |              |                        |  |
| Federal                          | 246,000          | 246,000      | 235,582      | (10,418)               |  |
| State                            | 1,103,700        | 1,103,700    | 1,334,516    | 230,816                |  |
| Local                            | 20,000           | 20,000       | 48,485       | 28,485                 |  |
| Fines                            | 100,000          | 100,000      | 60,353       | (39,647)               |  |
| Special assessments              | 1,551,797        | 1,551,797    | 1,870,800    | 319,003                |  |
| Charges for services             | 188,595          | 188,595      | 212,538      | 23,943                 |  |
| Interest                         | 33,500           | 33,500       | 101,596      | 68,096                 |  |
| Miscellaneous                    | 183,593          | 183,593      | 260,024      | 76,431                 |  |
| Total revenues                   | 4,676,666        | 4,676,666    | 5,418,691    | 742,025                |  |
| Expenditures:                    |                  |              |              |                        |  |
| Current:                         |                  |              |              |                        |  |
| General government:              |                  |              |              |                        |  |
| General government               | 2,803,702        | 2,803,702    | 2,104,441    | 699,261                |  |
| Supervisor                       | 130,415          | 130,415      | 125,758      | 4,657                  |  |
| Clerk                            | 197,947          | 197,947      | 161,764      | 36,183                 |  |
| Treasurer                        | 132,193          | 132,193      | 111,648      | 20,545                 |  |
| Township hall and grounds        | 280,350          | 280,350      | 219,437      | 60,913                 |  |
| Assessing department             | 136,046          | 136,046      | 120,816      | 15,230                 |  |
| Legislative:                     | 150,010          | 150,010      | 120,010      | 13,230                 |  |
| Township board                   | 68,530           | 78,530       | 72,965       | 5,565                  |  |
| Public safety:                   | 00,550           | 70,550       | 12,703       | 5,505                  |  |
| Police                           | 1,812,220        | 1,812,220    | 1,686,689    | 125,531                |  |
| Fire                             | 290,000          | 290,000      | 251,576      | 38,424                 |  |
| Building inspection              | 242,829          | 242,829      | 250,455      | (7,626)                |  |
| Danding hispection               | 242,023          | 242,023      | 230,433      | (7,020)                |  |
| Total expenditures               | 6,094,232        | 6,104,232    | 5,105,549    | 998,683                |  |
| Excess (deficiency) of revenues  |                  |              |              |                        |  |
| over expenditures                | (1,417,566)      | (1,427,566)  | 313,142      | 1,740,708              |  |
| Fund balance - beginning of year | 7,255,539        | 7,255,539    | 7,255,539    | -                      |  |
| Fund balance - end of year       | \$5,837,973      | \$ 5,827,973 | \$ 7,568,681 | \$ 1,740,708           |  |



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August 17, 2005

Members of the Township Board Davison Township 1280 North Irish Road Davison, Michigan 48423

We have recently completed our audit of the financial statements of Davison Township for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board Members and others within the organization.

#### Auditor's Responsibility under Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Davison Township (Organization) in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.



Members of the Township Board Davison Township August 17, 2005 Page 2

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

#### Auditor's Responsibility for Testing and Reporting on Internal Controls

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of the Organization's documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the Organization's internal control structure.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion.

Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. We had no suggestions for improving internal control procedures.

#### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

#### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.



Members of the Township Board Davison Township August 17, 2005 Page 3

#### **Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform the board about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no unrecorded possible financial statement adjustments.

#### Disagreements with Management

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Organization's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

#### **Consultation with Other Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

#### Recommendations for improvements - payments on special assessments

During the 2004 audit, it was noted that the Township was not maintaining a subsidiary listing of special assessments principal to be received. During 2005, the listing was created and maintained. However, during the year, cash received on the special assessments were not split between principal and interest. In order to maintain a "payoff" amount in the subsidiary listing of special assessments, cash collections need to be allocated to principal and interest and only principal posted to the subsidiary listing balance and the general ledger balance of the receivable.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

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